

## **Department of Revenue Functions Funded by Highway Funds**

The purpose of the Department of Revenue positions supported by highway funds is to administer the motor fuels (gasoline and diesel), alternative fuels, motor carrier and inspection tax laws. The motor fuels excise tax and motor carrier road use tax are collected by the Department of Revenue for deposit with Department of Transportation for road construction and maintenance on a daily basis. Fuel suppliers, distributors and trucking companies operating and based in North Carolina pay these taxes.

Over the last couple of years, the Department has been integrating the Motor Fuels division staff within the operational divisions of the agency for which each position most efficiently operates. Auditors were reorganized under the Examination Division. The Fuel Tax Investigators were reorganized under the Tax Enforcement Division creating synergies and efficiencies having all law enforcement personnel including criminal investigators, unauthorized substance tax agents and fuel tax investigators working under the same division and leadership. An Excise Tax division was created to handle the administration of the tax from the aspects of taxpayer assistance to handling requests for reviews of audits.

### **Examination Division**

In May 2011, the agency transitioned 33 motor fuel tax auditors to the Examination Division to enhance operational efficiencies, track motor fuel tax auditor performance and results, and increase return on investment of the Motor fuel audit program. This change placed all audit responsibilities within one division. The Motor Fuels section was created within the Examination Division with three primary objectives, 1) identification of motor fuels non-compliance, 2) recovery of lost revenue as a result of non-compliance, and 3) conduct audits in accordance with IFTA and IRP agreements. The unit was streamlined. Eleven management positions were reduced to five.

During the fiscal year ended June 30, 2012, the Motor Fuels section of the Examination Division completed 1,077 audits for a total of \$4,537,346 in assessments. This was an increase of 685 cases over the previous fiscal year and an increase of \$3,397,231 in assessments over the previous fiscal year. This section has begun using similar audit tools and methodologies as used by other tax auditors within the Examination Division which has created more efficiencies.

### **Tax Enforcement Functions**

In 2010, the Department of Revenue reorganized all law enforcement personnel into one division named the Tax Enforcement Division. This effort was undertaken to create operational efficiencies in the responsibilities discharged by law enforcement officers assigned across the state. This division is comprised of motor fuels investigators, special agents responsible for investigating criminal tax

violations and the unauthorized substance tax agents. This new division is comprised of 39 positions with 8 being supported by highway funds.

The seven motor fuels investigators are sworn law enforcement officers who are responsible for ensuring compliance with the motor fuels tax law by conducting investigations for possible fuel tax evasion. These seven investigators are covering anywhere from 10 to 15 counties each. These investigators inspect fuel terminals, rail shipments, fuel transports, retail fuel stations, and bulk-end users of motor fuels. The enforcement efforts include routine inspections of motor fuel users and also special operations conducted in conjunction with the North Carolina Highway Patrol Motor Carrier Enforcement Division and the Internal Revenue Service. Investigators conduct inspections and impose penalties as a deterrent effect to those trying to circumvent the motor fuels tax system.

A special agent with the criminal investigations unit of the Tax Enforcement Division supported by highway funds is responsible for the planning and conducting of criminal tax investigations for alleged violations of all North Carolina tax law, including motor fuels tax law and related offenses. The agent performs complex financial investigations that include conducting research, interviewing, gathering and analyzing evidence, documenting findings, making prosecution recommendations, affecting arrests, preparing cases for trial, testifying as the State's chief witness at criminal proceedings and supporting the Department in civil resolution of certain cases.

### **The Excise Tax Division**

The Excise Tax Division is responsible for the administration of the motor fuels (gasoline, diesel, and blended fuel), alternative fuels, motor carrier, inspection tax, privilege license, piped natural gas, alcohol, and tobacco tax laws of North Carolina. The division is comprised of several units responsible for the processing of returns, accounting of revenues, issuing licenses and bonding, to providing assistance to taxpayers by issuing decals to providing more technical tax inquiry assistance.

Some of the staff are currently involved in the implementation of the Department's new tax administration system, Enterprise Tax Management System (ETM) of TIMS, and are considered to be some of the leaders on the project. The Motor Fuels tax schedules previously on the VISTA system were migrated to the Department's new Tax Information Management System (TIMS) in the summer of 2011.

### **Information Technology, Business Operations, and Collection Division Bankruptcy Unit Functions**

The Department has several positions throughout the agency supporting the administration of the motor fuels and motor carrier taxes. Three positions are within the Information Technology Division supporting the new Enterprise Tax Management System (ETM) of TIMS, the IFTA web, and the Fuel Tracking System. The Department has one position within the bankruptcy unit of the Collection Division which is responsible for processing all bankruptcy filings relative to motor fuels taxes, for posting the bankruptcy information to the VISTA tax system, and for all other administrative work

relative to bankruptcy filings. The Business Operations Division has two positions which provide audit support with computer assisted audits and account resolution.

## Revenues

Below you will find a report of the net revenue collections of the motor fuel and motor carrier taxes collected by the Department of Revenue by fiscal year.

### Net Revenue

	<b>Budget Code</b>	<b>FY 11-12</b>	<b>FY 10-11</b>	<b>FY 09-10</b>	<b>FY 08-09</b>	<b>FY 07-08</b>
General Fund Inspection Tax	19954	\$1,331,796	\$1,222,610	\$1,002,905	\$901,426	\$784,734
Motor Fuels Tax	80000	\$1,377,202,504	\$1,227,703,124	\$1,144,056,963	\$1,117,851,170	\$1,166,972,979
Highway Fund Inspection Tax	80004	\$13,926,130	\$13,976,788	\$14,105,867	\$13,674,635	\$14,200,122
Water & Air Quality Account	24301	\$8,005,008	\$8,118,375	\$8,067,104	\$7,918,867	\$8,290,772
Commercial LUST Cleanup Fund	64305	\$15,208,234	\$15,423,613	\$15,326,206	\$15,044,580	\$15,751,141
Non-Commercial LUST Cleanup Fund	64305	\$2,402,783	\$2,436,811	\$2,421,422	\$2,376,927	\$2,488,558
Highway Trust Fund	84201	\$459,360,491	\$409,658,208	\$382,078,920	\$372,984,161	\$389,156,771
<b>Total</b>		<b>\$1,877,436,946</b>	<b>\$1,678,539,528</b>	<b>\$1,567,059,387</b>	<b>\$1,530,751,765</b>	<b>\$1,597,645,077</b>

## Revenue's Proactive Savings Steps

There have been several cost saving measures implemented by the Department over the past several years. The Department offered a reduction of 8 full time positions within the Examination and Tax Enforcement Divisions in response to the report to the Joint Legislative Transportation Oversight Committee and the Joint Legislative Commission on Governmental Operations March 1, 2012.

Another cost saving measure instituted in the Tax Enforcement Division has been the elimination of over-night travel for special operations. The division currently assigns personnel to operations located within driving distance of their office to reduce overnight travel.

For the fiscal year-ended June 30, 2013, the Examination Division has reviewed the Motor Fuels section's operations, and in an attempt to right size the section with the proper number of staff corresponding to the tax compliance objectives, the division proposes the elimination of 2 vacant motor fuel audit positions.

The Department is in the process of upgrading the current Fuel Tracking System which is used by all oil companies that remit gas tax to the Department of Revenue. The oil companies are mandated to file their tax returns electronically through EDI using a Fuel Tracking System. The Department's current version of the vendor software will no longer be supported by the current vendor without the Department upgrading the software. The Department is working with the vendor on this upgrade to ensure taxpayers can continue to meet the electronic filing mandate. Savings generated from operational costs mentioned above (travel) are being used to offset the costs of the upgrade of the Fuel Tracking System.

March 18, 2013